

FORUM ON TRANSPORTATION INVESTMENT

FEDERAL FUNDING

Idaho has relied on federal funding plus the state match for most of the construction projects on the State Highway System (including the interstate system). Use of federal funds is generally limited to planning, right of way, design, and construction of federal-aid projects. From 1994 to 2001, Idaho's federal funds rose on average 9.4% per year, which allowed Idaho to make significant improvements to the state highway system during that time period. From 2001 to 2005, Idaho's federal funds decreased 0.8%, thus reducing Idaho's ability to meet needs and growth. (See attached graph-Legislative Appropriations, ITD Transforming Transportation – February 5, 2004.)

With current inflation (2.5% avg.) and population growth in Idaho (2%), federal funding would be required to increase approximately 5% per year to keep federal revenue current. Federal funding has not increased in the last 4 years, and is very likely to remain the same or decrease in constant dollars over the next 6 years.

The reauthorization of TEA-21 may include some additional funds, but is unlikely to be significant in Idaho because:

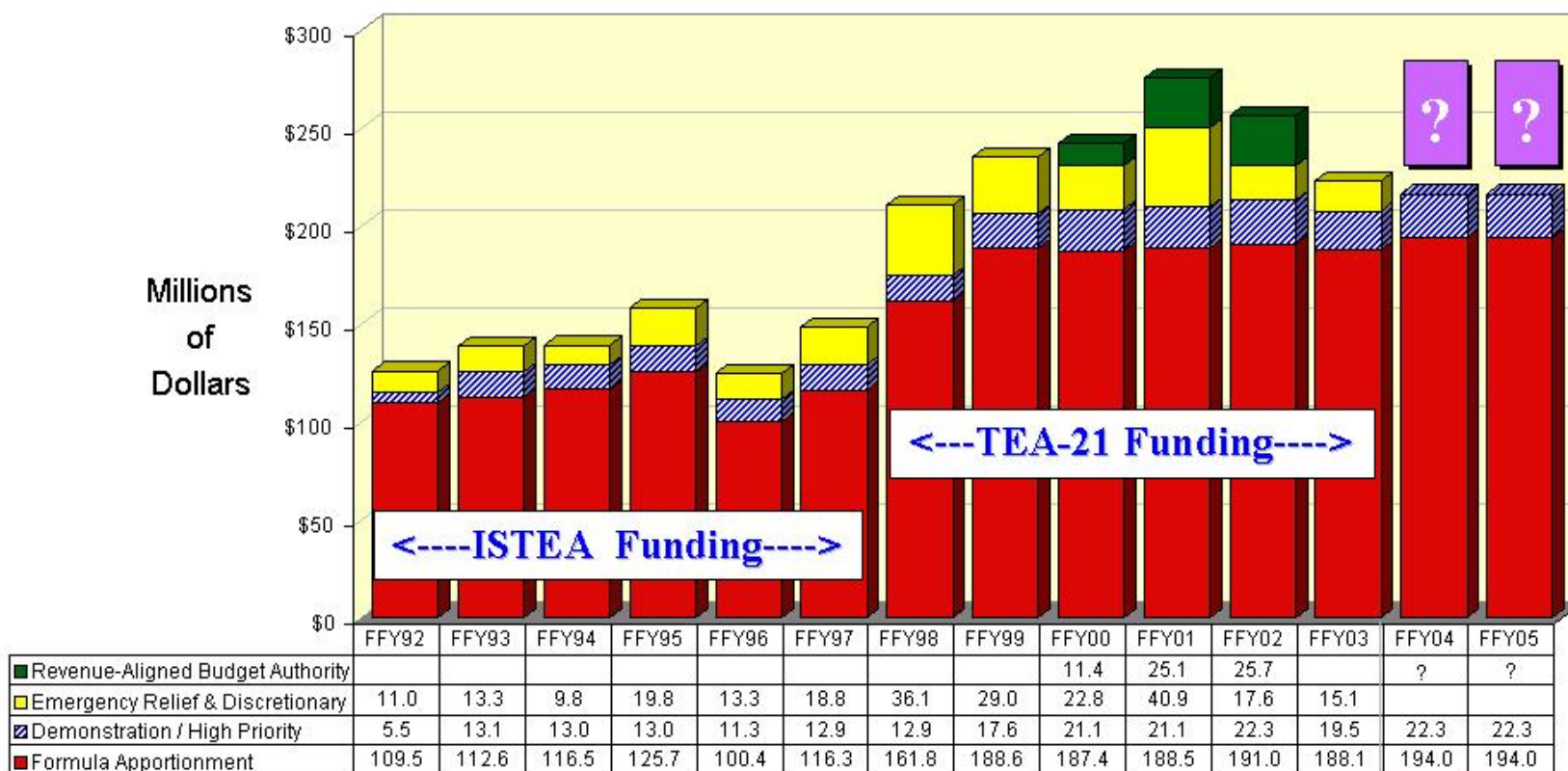
- Pressure on the Highway Trust Fund to distribute funds differently.
- Pressure from the 90% 'donor' states, who are requesting an additional 5%. Idaho has historically received \$1.27 for every \$1.00 that was collected in Idaho by the federal government. If the 90% states are granted higher funding, 'donee' states like Idaho may be reduced.
- Pressure from the "unified federal budget" versus the "deficit." Congress is receiving pressure from numerous areas to maintain a constrained budget and to keep the deficit from growing. Transportation is just one of the many that is requesting increased funding.

Given the statements above and other information presented about federal funding:

- What methodologies could Idaho use to increase federal funding?
- Do you agree/disagree that Idaho needs to find other funding to supplement federal funding for new construction to meet our transportation system needs?
- Under what conditions would debt be an acceptable financial strategy for Idaho?

Idaho's Federal Highway Revenue

(Dollars are rounded and in millions)



ISTEA - Intermodal Surface Transportation Efficiency Act

TEA-21 - Transportation Equity Act for the 21st Century

Projected



STATE FUNDING

State funding is primarily used for administration/operations/maintenance/and matching federal funds. During the last 10 years, state funding increased 52% -- primarily from the 1997 4¢ fuel tax increase and registration fee increases. From 2001 to 2005, state funds to the Idaho Transportation Department (ITD) decreased from \$202.8 million to approximately \$200 million – 0.2% decrease. ITD has forecasted that state funding will continue a similar decline if current methods of collection remain the same.

Idaho's General fund during the same 10-year period increased 6% per year (mostly due to population growth).

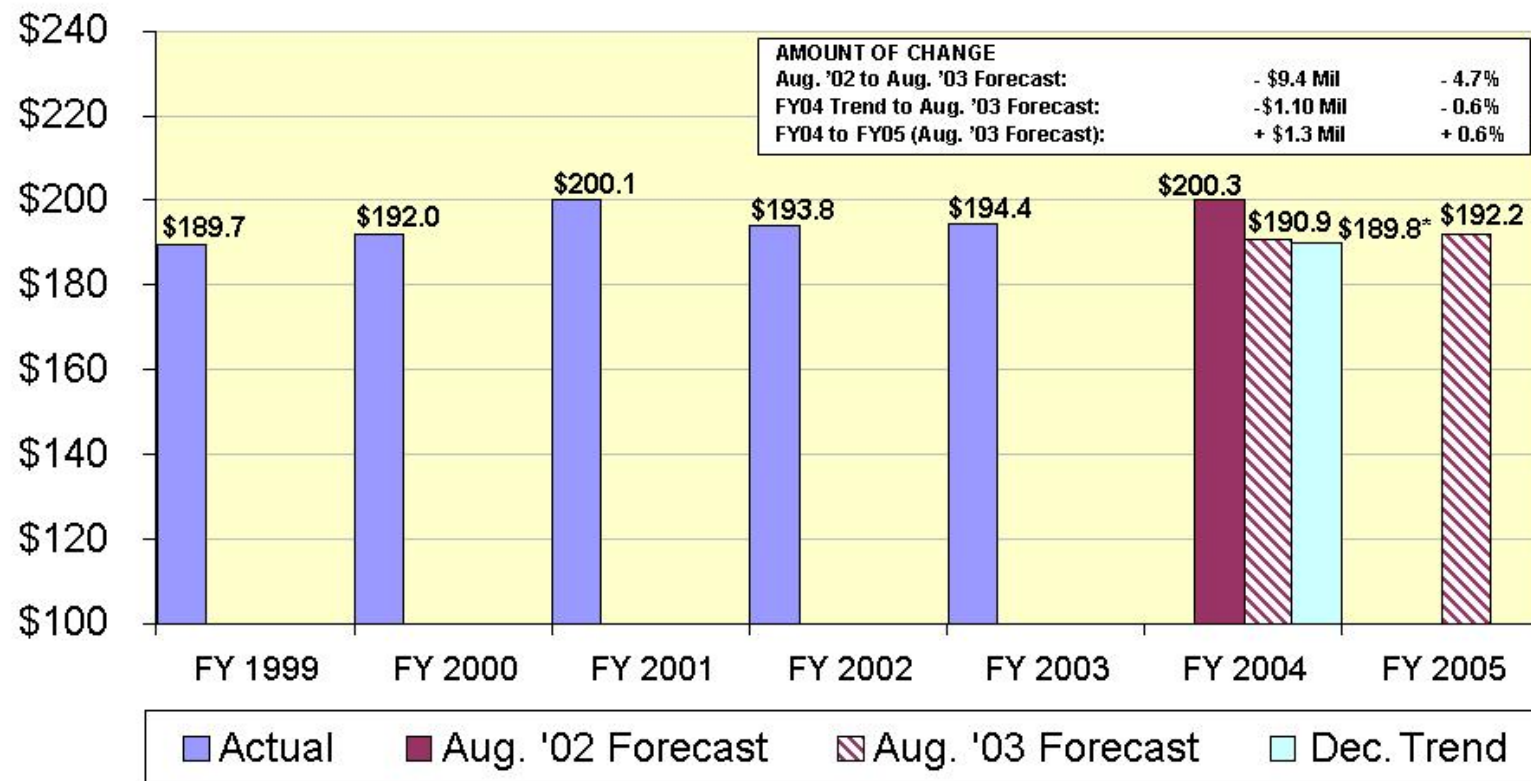
Given the above statements and other information presented:

- Is funding for the Highway Distribution Account likely to continue to stay flat or decrease?
- Should some mechanism be added to adjust the Highway Distribution Account to keep up with inflation and/or population growth, or both?
- A large portion of Idaho's state funding is targeted to **maintain** the current transportation infrastructure. Should Idaho redirect funds used for preservation of the transportation system to new construction?
- Idaho has collected 1¢ per gallon for leaking underground storage tanks, which is currently not being collected because the fund has reached its statutory maximum. Should this **1¢ be collected for transportation?** (\$9 million per year)?

State Highway Revenues to ITD

— Actual, Forecast, and Trend —

(Dollars Rounded and in Millions)



*Trend based on six months of actual revenue through Dec. 2003

ALTERNATIVE FUEL (ETHANOL/BIO-DIESEL/HYDROGEN) AND HYBRID VEHICLES

Idaho has traditionally collected transportation funds from the user through fuel tax and other user fees (registrations, driver's licenses, etc.)

A recent proposal requiring 10% ethanol for all gasoline sold in Idaho may be considered by the legislature this year. The 10% ethanol rationale is to improve air quality standards and benefit Idaho agriculture. Ethanol currently receives a 2.5¢ per gallon subsidy and consumption is very small. Ethanol gasoline has been higher priced because of higher production costs, so the subsidy helps to keep ethanol gasoline competitive with traditional 100% gasoline.

Ethanol-producing facilities in Idaho have closed (Wyoming is currently the production site for Idaho's ethanol supplier). Bio-diesel is on a similar track of development and taxing proposals.

Hydrogen fuel is currently a research priority by INEEL in conjunction with a laboratory in Utah. Hydrogen fuel is a very real future fuel alternative. Current taxing structures will need to be modified if this fuel becomes a viable alternative.

In the next ten years it is predicted by the federal government, 15% of all vehicles will be some type of hybrid vehicle.

Given the above statements and other presented information:

- When hybrid vehicles impact fuel consumption, how will transportation funds be affected?
- Should we eliminate breaks, restructure user fees and fuel taxes, etc., to maintain funding levels? How should we go about these changes?
- What other alternatives to generate user fees could we develop?

FUELING THE FUTURE: INEEL ADVANCES HYDROGEN-CREATION

IDAHO FALLS – It's lighter than air and is the most abundant element in the universe. Its energy potential is perhaps matched only by its flammability. We've known about hydrogen for years, so why does it seem that it's only recently that serious breakthroughs in hydrogen energy development are being made?

To hear Lyman Frost tell it, they've been in the works for years. "I think as people come to realize we do have limited petro-chemical resources, we have to find some kind of replacement," said Frost, special projects director at the Idaho National Engineering and Environmental Laboratory. "What you're seeing is the research starting to pay off."

Within the last two months, two INEEL announcements have illustrated the mind-boggling possibilities of hydrogen and laid the groundwork for what some believe could be a major overhaul of the world's energy infrastructure. Cars. Destroyer ships. Pipeline grids. All these and more could be revolutionized by the power from the tiniest of atoms. Some watchdog groups urge caution, but they join the growing chorus in prioritizing the development of alternative fuel sources.

Here in Idaho at the INEEL, an Oct. 27 announcement and another last Monday underscore the fact that making hydrogen a viable energy source is among the site's chief missions.

The first announcement came on the heels of ground-breaking research on diesel reformers, which mix fuel with steam before converting it into a 30 percent hydrogen gas mixture for a fuel cell. A representative from the U.S. Navy was there, as was the director of an Arctic energy institute in Alaska. "It's going to make a difference in Idaho," Frost said at the time. "You'll be able to convert diesel from your corner gas station into clean fuel that can be used much more efficiently."

The second announcement, equally mind-numbing to many lacking science backgrounds, detailed a breakthrough in the area of high-temperature electrolysis, a process in which hydrogen is produced from water. INEEL collaborated with private-sector companies on both projects, and both appear likely to be implemented in the near future. The degree to which they are to be implemented, however, remains to be seen.

ARKANSAS SHOULD BUY ENVIRONMENTALLY FRIENDLY VEHICLES

LITTLE ROCK (12/06/04) – Arkansas state government should take the lead in improving air quality by purchasing environmentally friendly hybrid vehicles, the state's chief environmental regulator said Friday. Marcus Devine, director of the Arkansas Department of Environmental Quality, said his department has been satisfied with the purchase of a hybrid vehicle last year. He urged the six state agencies represented on the Arkansas Pollution Control and Ecology Commission to consider buying electric-gas cars for their departments in the future. "I want to encourage those on the commission, to in their own agencies ... purchase this type of vehicles," Devine said, adding that if the commission is going to require businesses to meet air quality standards it should do its part to reduce air pollution.

Although the average cost of a hybrid car is about \$4,000 more each than regular gas burning vehicle, hybrids last longer, have lower maintenance costs and save taxpayers' money because they get between 40 and 60 miles per gallon, Devine said. State agencies represented on the environmental commission include the state Department of Health, Soil and Water Commission, state Geological Commission, state Forestry Commission, state Oil & Gas Commission and the Game and Fish Commission.

Hybrid vehicles use a small gas engine connected to an electric motor, Devine told commission members. The engines emit less pollution and reduce the United State's dependency on foreign oil, he said. "Auto emissions have a dire effect on our air quality," Devine said, adding that ADEQ's customer services division purchased a Honda Civic hybrid last year and employees have been very pleased.

Audree Miller, who sits on ADEQ's Pollution Prevention Steering Committee, said New York City has purchased 650 hybrid vehicles, and the city of Santa Clara, Calif., has bought 80. She also said King County officials in Seattle estimated they would save about \$2,000 for every car purchase by buying hybrids because gas savings and lower maintenance costs. "Cities and counties all across the nation are beginning to incorporate hybrid vehicles into their fleets," Miller said.

Joe Giddis, administrator of the Office of State Procurement with the state Department of Finance and Administration, told the commission that the state could save money if it purchased the vehicles in bulk. He said DF&A would work with agencies to get the best price for the vehicles. Devine also said that ADEQ officials will pitch the idea of purchasing the energy-saving vehicles to all state agency leaders over the next few months. Charles McGrew, director of shared services for the state Department of Health, said he would immediately suggest that his department begin purchasing the vehicles. "We need to do all we can do," he said about reducing air pollution in Arkansas. Devine said hybrid vehicles are now made by Toyota and Honda, but U.S. manufacturers will begin selling the energy saving vehicles within the next few years.

PUBLIC TRANSPORTATION

Public transportation is currently funded through the Idaho Transportation Department. Idaho receives federal funding for public transportation in the amount of \$5.1 million for Metropolitan areas primarily for capital funding, and \$2.4 million for rural and elderly/persons with disabilities transportation, and \$3.9 million for discretionary bus/bus facilities.

When a state match is required, the match is provided by the local governments. The State Highway Fund provides \$500,000 for the Division of Public Transportation for administration, and \$312,000 for the Vehicle Investment Program (VIP) to assist elderly/persons with disabilities for matching federal funds for capital investment (buy vehicles).

Given the above statements and other information presented:

- Is Idaho currently providing the mechanism at the state or local levels to fund public transportation?
- Does Idaho need to target funding for public transportation as a component of the transportation infrastructure? What authority mix of state, local, regional should be used?